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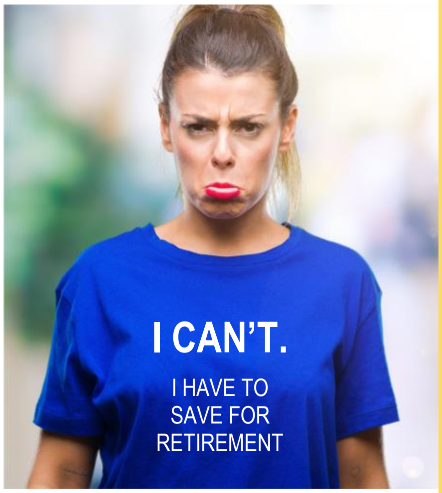


Finding a T-Shirt That Fits

There's a T-shirt theme that begins ***"I Can't…"*** followed by an explanation.

I can't… I have dance.
I can't… I have a tee time.
I can't… I'm in law school.
I can't… I have to walk my unicorn.

If an entrepreneur wanted to sell "I Can't…" t-shirts to Millennials, these would be best sellers:

I can't… I have student loans.
I can't… I have credit card debt.
I can't… I have to save for retirement.

These statements capture the essence of a generation's angst regarding their financial lives.

Many Millennials are facing decades of debt service, coupled with frantic warnings that they must also start saving *right now* or they will never be able to retire. The financial drain of these two imperatives leaves them saying, "I can't…" – or "We can't…" – to things that once were assumed to be markers of progress into financial and social maturity.

"I can't (save for a down payment)… I have student loans."

Accumulating a down payment for a first home has long been a financial rite of passage, a first step to becoming a financial grown-up. Today, it's a step fewer young households can manage.

A July 2019 *Wall Street Journal* article, "Financial Crisis Yields Renters," relates the plight of 29-year-old Alex Ruiz and his wife Stephanie: "(They) have steady jobs, are setting aside money for retirement and are slowly paying down their student debt. Yet buying a house seems out of reach for at least another decade."

"Day to day we're OK generally," says Mr. Ruiz, a case manager at a government agency. "But the depressing part is when we take a hard look at the possibility of our future."

The numbers support his bleak assessment.

- Census data indicates that about 15 percent of adults in their 20s and 30s are living with their parents.
- Among adults ages 25 to 34, homeownership has declined by 20% since 2001.
- The median age of a home buyer is 46, the oldest since the National Association of Realtors began keeping records in 1981.

Living with parents or continuing to rent can be a financial dead-end. If the only housing you can afford is your parent's basement, it geographically limits your career options. And rent increases reduce what can be saved.

"We can't (have children) …we have to save for retirement."

Anecdotally, many young adults say their inability to buy a home has also made them rethink having children, another transitional milestone.

In This Issue…

Everyone knows children are expensive. And everyone also knows that the value and reward of having children and raising a family cannot be measured exclusively in financial terms. But having a family presents all sorts of economic trade-offs, and opinions about how to allocate limited resources.

In the past, a discussion about financial priorities within a family was often whether it was better to save for retirement or for a child's education. Today, the issue is more stark: to save for retirement or ***have*** children.

While acknowledging it's an apples-and-oranges scenario, some sectors of the personal finance community clearly favor saving for retirement. And these recommendations are not tongue-in-cheek. Consider these examples:

"The secret to retiring early? Make lots of money and don't have kids." – Steve Adcock, thinksaveretire.com, May 13, 2019

"If the first commandment of retirement planning is 'start early,' then 'have as few dependents as possible' is 1a."

– Greg McFarlane, March 20, 2019, Investopedia

These writers are not anti-children; they just believe the cost is too steep; you can have children, or you can have a comfortable retirement, but you can't afford both.

Adcock, a semi-retired blogger in his mid-30s who provides personal finance commentary for several national media outlets is unapologetic about his perspective:

> ***"Those of us who earn high incomes and didn't have kids can have a significantly higher savings rate than those who have neither, and it'll be a hell of a lot easier for us to retire early. There are no two ways about it. If we had kids, we'd be working. We didn't choose kids, and therefore, we're retired and living our dream life."***

McFarlane, a former mathematician, now author and founder of a personal finance website, is equally pragmatic:

> ***"For every dollar spent on children's education, retirement planning is hurt proportionately. When a couple opts not to multiply, that couple has increased its capacity to expand its retirement fund. One fewer partner at home with the kids means one more partner in the workforce. (T)he road to retirement becomes considerably wider and smoother."***

There's an ironic twist to this "I can't have children…I need to save for retirement" mindset: It's only viable if other people continue to have kids. Taken to its logical conclusion, not having children means the end of the human race. Of course, that's extreme; some people will always have children; it's just the "smart" Millennials who won't, who instead opt for a secure retirement.

But considering that many developed countries already have below-replacement birth rates, endorsing the "I can't have children…" approach arguably makes retirement more expensive and harder to achieve. A century of increasing lifespans and declining birth rates has resulted in a population that has fewer young people to care for their elders. More retirees competing for the services of fewer caregivers is a classic example of scarcity driving up the cost.

It's also worth noting that the "good old days" of American retirement (say, the 1960s through 1980s), where many workers had a comfortable and secure retirement funded by Social Security, employer pensions and a modest amount of personal savings, were possible in large part because of ***growing populations.*** The high ratio of workers-to-retirees kept Social Security in the black, and a major factor in the growth of the economy was an increasing population – i.e., more workers, more consumers – that made businesses profitable and pensions sustainable.

There's something better than "I can't…"

According to the ads and brochures, the financial services industry exists to help individuals maximize their economic potential and achieve a uniquely personal state of financial bliss. But between debts that may take decades to pay off and the exhortation that every available dollar must be allocated to retirement, it's no wonder that the only bliss many young adults can afford is a specialty coffee and avocado toast – and then they will be criticized for their indulgence. This is a very pessimistic approach. It's very "I Can't…"

This over-emphasis of retirement as the primary objective of personal finance, particularly for younger generations, is discouraging and demotivating. The value of money only becomes apparent when it is spent to provide sustenance or pleasure for yourself, those you love, and causes you care about. When the primary message from personal finance "experts" is to put all of your saving/future spending in a place where you aren't supposed to enjoy it until 60 or 70 (or later), it neglects to plan for all the moments of financial bliss that could occur before retirement.

Will having children or buying a house decrease your retirement plan contributions? Maybe. But it's also possible that the satisfaction of having those things in your life will make you happier and more productive – before retirement.

It's a cliché to say that life isn't a destination to be reached, but a journey to be enjoyed. It's also true. ❖

Don’t Be a TEST PILOT

The Bell X-1 that Chuck Yeager pilot-tested.

To “push the envelope” means testing limits and trying out new, often radical ideas. The phrase has its origins in mathematics and engineering, where the “envelope” is the boundary or limit of a design. In the 1950s, test pilots like Chuck Yeager became famous for pushing the envelope with experimental aircraft, by breaking the sound barrier or flying at ultra-high altitudes.

Pushing the envelope can be risky business, because if you exceed the limits of a design, there’s often a crash. Yeager survived several crashes, but others were not so fortunate.

Today, some financial “pilots” are pushing the envelope of pension engineering, seeing if they can keep underfunded retirement plans from going down in flames.

Pushing the Pension Envelope

A pension has two principal “engineering groups” that contribute to its design: actuaries and investment managers. Actuaries make projections on the number of retirees who will be eligible for benefits and how long they will be paid. Investment managers determine the capital contribution and rate of return needed to provide these benefits. Pension engineering is not static; as conditions change, actuaries and investment managers make adjustments to their projections.

Pushing the envelope isn’t just about investment risk.

On the actuarial side, pension plans have had to adjust to longer life spans. For the investment managers, the biggest changes come from underperforming investments and deficient contributions.

Lower-than-anticipated returns or higher-than-anticipated payments mean the sponsor of the pension (a state government, a municipality, a corporation) should make additional contributions to cover the projected shortfall and keep the pension fully funded. But since a one-year deficit may not cause current retirees to lose benefits, and because there may not be funds available to make an additional contribution, regulators give pension managers some latitude to restore the deficit through other methods. Typically, this means projecting higher returns.

If higher returns are achieved, problem solved. But if investment returns are again below projections, the pension needs either a larger infusion of capital, or it must project an even higher return from investments.

Today, many pensions, even those operated by governmental units, are woefully under-funded, and the sponsors don’t have the cash to make up the difference. Consequently, investment managers have to push the envelope in their portfolios.

An August 2019 *Wall Street Journal* article, “Public Pension Funds Miss Their Mark,” says that “In hopes of reducing their unfunded liabilities, pensions have pushed further into riskier, less-traditional investments over the past decade.” Yet in terms of results, “Public pensions lagged behind their projected returns this year.”

When pensions don’t have enough money to meet future obligations, trying to cover the deficit with riskier, less-traditional investments is definitely pushing the envelope. And since this approach has been used before in the private sector – and ended badly – some observers see a crash coming.

Insight from Failure

A plane crash is a failure, either in design or pilot error. But from failure, aeronautic engineers can learn what not to do in the future. In a similar way, individuals may glean some insights from pensions that have pushed the envelope.

Your retirement accumulations are analogous to a one-person pension; your savings are intended to provide a retirement income for as long as you live. Just like the actuary and investment manager, you can make projections for longevity and rates of return to calculate what you can take as income and how long it will last. And just like an under-funded pension, you could push the envelope of your retirement income by projecting higher returns. But should you push the envelope? Maybe not.

It’s fair to assume a pension manager has a higher level of investment expertise than you do. If professional investment managers struggle to meet their most optimistic projections, is it reasonable to think you can successfully push the envelope and receive higher returns? Probably not.

There’s another caution to consider: Pushing the envelope has a psychological component. Success can convince you to continue pushing – until you crash.

Studies have found that individuals who built their retirement savings during years of above-average market returns tend to think these results are the norm. John Coumarianos, a former analyst at Morningstar and writer, says, “(P)eople who retire at bull-market peaks have a higher chance of running out of money. They wrongly assume big returns will continue to pile up – and then they lose a big chunk of cash when bear markets arrive.”

It’s Insurance and Debt, Too

Pushing the envelope isn’t just about investment risk. A decision to neglect insurance – on you, your income, your assets – is pushing the financial envelope. Because the tragedies covered by insurance (a premature death, a disabling accident, a lawsuit, a fire) are relatively infrequent, some households try to minimize or eliminate insurance. If nothing happens (no fatality, accident, judgment, car wreck) the decision is self-affirming (“See, I told you we could get by without it.”), and it becomes comfortable to go without insurance or continue under-insuring.

Perhaps the greatest envelope-pushing involves debt. National economies, governmental units, businesses and individuals continue to increase their indebtedness, pushing the envelope of what their budgets can handle. Some sober-minded observers see a crash looming, yet institutions and individuals continue to find creative ways to increase lending and borrowing.

Are You Pushing the Envelope of Your Personal Finances?

From a distance, most of us can see that none of this will end well. Under-funded pensions will eventually fail. A tragedy will strike, and there will be no insurance to replace or restore what's been lost or damaged. And overwhelming debt will drive households to bankruptcy. At some point, we have to stop pushing the envelope, and take steps to ensure our security.

But often what we see in others we don't see in ourselves. Like an investor who thinks above-average returns will continue for the rest of his life, we may have pushed the envelope so often we are no longer concerned about a crash. To accurately assess our risks, we may want to get input from a financial professional, and strategies that limit exposure and preserve assets. ❖

The Unfortunate Phenomenon of Gray Divorce

Life can have a Whack-a-Mole quality: No sooner is one problem smacked down, but another one pops up. Sometimes, what pops up is a real surprise. For instance:

Several government agencies report the overall divorce rate has dropped to its lowest level since 1980. The biggest factor in the decline: a dramatic improvement in the resilience of marriages among younger ages; these cohorts are marrying later but tending to stay married longer. This is a positive trend, both for individuals and society.

But there is a flip side: Among U.S. adults ages 50 and older, the divorce rate has ***doubled*** since 1990; for those over 65, it has ***tripled***. This has given rise to the term "gray divorce," which not only hints at the ages of the parties, but the long-term relationships that are being dissolved. According to Susan Myres, an attorney specializing in family law, "Although some of these divorces are occurring in second, third, or fourth marriages that are not of long duration, the majority involve long-term marriages." How did this issue pop up among older generations?

There is no consensus. Some attribute it to longer lifespans. When the joint project of raising a family comes to a close, some individuals want something different – a different lifestyle, a different partner, a different purpose – for their next 20-30 years.

Others point to affluence. People with financial resources have more options and may be better equipped to start over, even at this later stage of life.

And since many of today's gray divorcees were children of divorced households, there isn't the stigma attached to it. Divorce may be unpleasant, but it's common.

That said, the decision to unwind a 20-, 30-, or 40-year relationship is one fraught with economic peril. And older couples should be cautious about embracing this trend.

Bad Timing, Lots of Details

A divorce that occurs at or near the end of one's working years is problematic simply because there's little or no time to recover the financial losses that occur in the dissolution of the marriage. Two people who divide assets and live separately are going to have higher expenses, not to mention the legal fees that accompany the process.

A Pew Research Center report finds that "Unfortunately, all of these property divisions have the same effect as starting to save too late in life for retirement or suffering a major loss in the market: There are no longer enough working years to make up the loss."

Furthermore, long-standing marriages usually have numerous and deeply intertwined financial connections, and unwinding them is often far from easy. Myres ticks off a short list of unique financial issues in gray divorce:

- Social Security
- Life insurance
- Lifetime health insurance
- Retirement packages, supplemental policies, and 401(k) plans
- Selling, or not selling the house
- Estate-planning documents that impact assets

Social Security alone presents multiple examples of the potential complications. By law, Social Security payments cannot be divided between two people; in a settlement, if one spouse is receiving Social Security payments, it impacts how other assets are apportioned. Contact the Social Security Administration for complete details regarding eligibility for benefits.

Timing matters: If the couple has been married for 10 years, a non-working spouse is entitled to a Social Security benefit based on the working spouse's earning history. If one party has been receiving Social Security for less than two years, the other party has no spousal claim on his/her Social Security in a divorce.

But if the two-year window has passed, the divorcing spouse may be entitled to a payment that is essentially one-half of the other's calculated Social Security payment.

The other items on the list can have similar layers of complexity. What happens to health care coverage? Who owns life insurance policies and pays the premiums? Does an asset (like a house) have to be sold to satisfy the division of assets? What about inheritance concerns; do you need to account for *her* descendants, *his* descendants, and *their* descendants?

Investing in the Relationship Can Save More Than a Marriage

Some marriages cannot be repaired, and it is perhaps for the best if some marriages are dissolved. But given the costs of deconstruction, couples with foresight might find it valuable, emotionally and financially, to invest in strengthening their relationship and avoiding a gray divorce. ❖

The After-50 Entrepreneur

From the headline-grabbing business stories, you might conclude that entrepreneurial success in the United States is spearheaded by under-30 tech geeks who develop new apps using algorithms and artificial intelligence. You would be mistaken, at least about their age.

"Successful entrepreneurs are middle-aged, not young," according to *Age and High-Growth Entrepreneurship*, an April 2019 paper co-authored by professors from MIT and Northwestern, with assistance from the US Census Bureau. "We find that age indeed predicts success, and sharply, but in the opposite way that many observers and investors propose. The highest success rates in entrepreneurship come from founders in middle age and beyond."

Statistically, the difference between younger and older entrepreneurs is substantial.

- A 50-year-old entrepreneur is almost ***twice as likely*** to start an extremely successful company as a 30-year-old.
- A 60-year-old startup founder is ***3 times as likely*** to found a successful startup as a 30-year-old – and is 1.7 times as likely to found a startup that winds up in the top 0.1 percent of all companies.

Older entrepreneurs aren't a rarity either. The Kaufmann Foundation, a non-profit organization that promotes start-up business development, reports that…

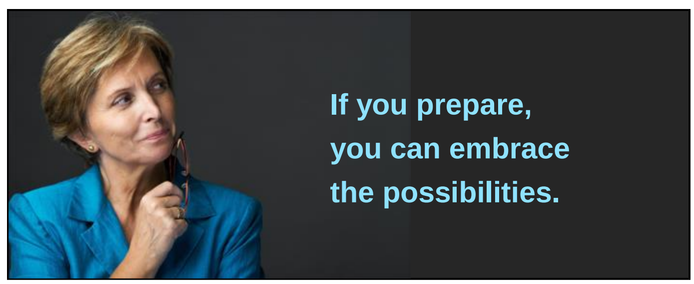
"Older adults are a growing segment of the U.S. entrepreneurial population. Individuals ages 55 to 64 have gone from making up 14.8 percent of new entrepreneurs in 1996 to 25.5 percent of all new entrepreneurs in 2016."

Observers point to three factors as drivers for increased entrepreneurial activity in later life.

1. Longevity. As lifespans have increased, many individuals find they are still healthy and capable, and want to continue working. In what were once considered "retirement years," these individuals are fashioning second careers, both for personal fulfillment and economic profit.

2. Necessity. The loss of a job spurs many people to start new businesses. This is particularly true for older people, who may have a harder time finding new work, but are more likely to have the financial resources and professional credentials to consider a start-up venture.

3. Experience. Even as companies attempt to replace older, highly-compensated employees with younger workers at lower salaries, there a high demand for industry-specific knowledge and experience. For older individuals, this can mean opportunities for work as an independent consultant for one or more employers in the marketplace.



If You Prepare, You Can Embrace the Possibilities

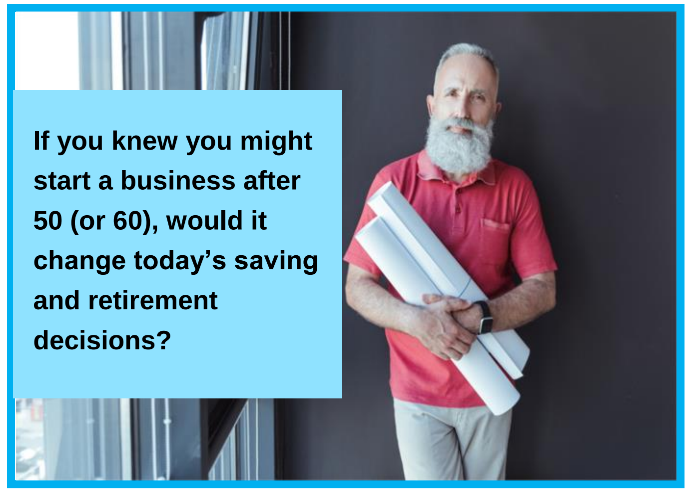
Even though we know the only constant in life is change, there is a tendency for all of us to plan our lives as if our tomorrows will be much the same as our todays; same job, same house, same spouse. But suppose you knew there was a good chance you might face an entrepreneurial opportunity or necessity in the next ten years.

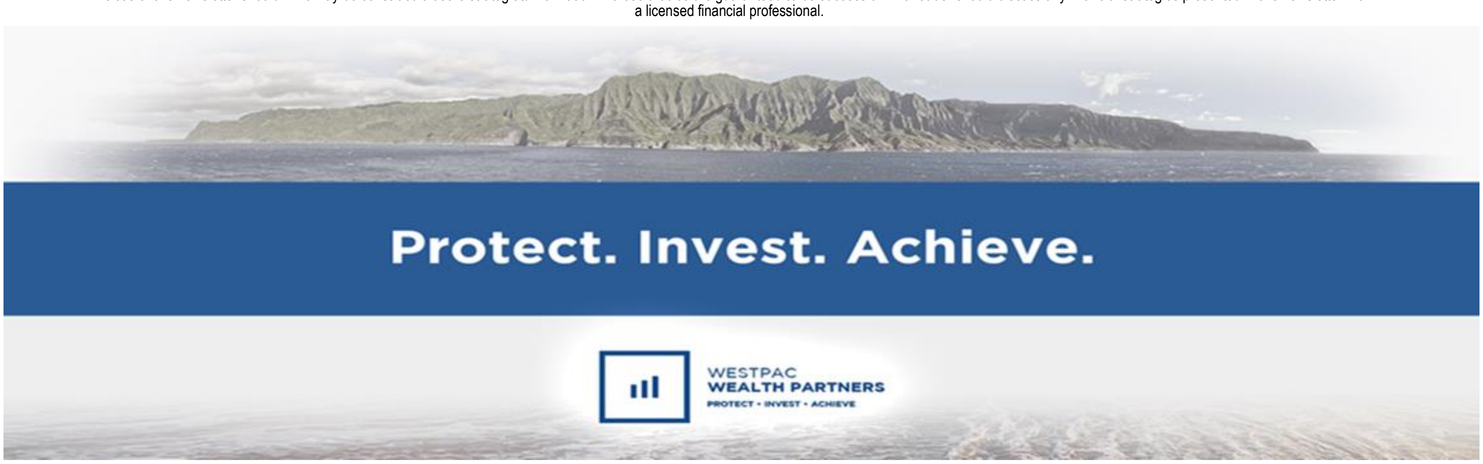
- Would you still commit most of your long-term savings to an employer's qualified plan?
- Would personally-owned life and disability insurance be better choices than employer-sponsored group policies?
- Would you improve your liquidity and ensure access to credit (such as establishing a home equity line) to cover periods of fluctuating income?

- Would you maintain your current lifestyle or reallocate some of your discretionary dollars to increase your cash reserves?

Obviously, the answers to these questions depend on your circumstances. But when you consider your health, ambition, skills and accumulated assets, it might be prudent to lay the financial groundwork to improve your chances for success should you become an after-50 entrepreneur.

Pursuing an entrepreneurial opportunity late in life could be a fulfilling and profitable closing chapter in the story of your career. A start-up after 50 could be an ideal platform for working longer or transitioning to a phased retirement. And many older entrepreneurs find that the format suits them; they have more control over their lives, and a chance to maximize the value of their accumulated skills and experiences. ❖





P 619.684.6400 • F 619.684.6410 | 4275 Executive Square Suite 800, La Jolla, CA 92037 | WestPacWealth.com